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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

S & L VITAMINS, INC.,

Plaintiff/Counterclaim Defendant,

v.

AUSTRALIAN GOLD, INC.,

Defendant/Counterclaim Plaintiff.

05 CV 1217 (JS)(ML)

AUSTRALIAN GOLD, INC.,

Third Party Plaintiff,

v.

LARRY SAGARIN AND JOHN DOES, 1-10,

Third Party Defendants.

AUSTRALIAN GOLD'S SECOND ANSWER, AFFIRMATIVE AND OTHER DEFENSES AND AMENDED COUNTERCLAIMS AND AMENDED THIRD PARTY COMPLAINT

Australian Gold, Inc., ("Australian Gold") by counsel, for its Answer, Affirmative and Other Defenses, Amended Counterclaims and Amended Third Party Complaint against S & L Vitamins, Inc. and Larry Sagarin hereby states as follows:

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THE PARTIES

1. Plaintiff S & L Vitamins, Inc., ("S & L"), is a New York corporation with a principal place of business at 308 East Montauk Highway, Lindenhurst, New York.

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 1 of the Complaint and therefore denies the same.

2. S & L does business as "Body Source."

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 2 of the Complaint and therefore denies the same.

3. Defendant Australian Gold, Inc. is a Delaware Corporation with a principal place of business at with a principle place of business at 6270 Corporate Drive Indianapolis, Indiana.

ANSWER: Australian Gold admits that its principal place of business is located at 6270 Corporate Drive, Indianapolis, Indiana but denies the remaining allegations contained in paragraph 3 of the Complaint.

JURISDICTION AND VENUE

4. This Court has subject matter jurisdiction under 15 U.S.C.S. § 1121, 28 U.S.C.S. §1331, and 28 U.S.C.S. §1338(a), in that this case arises under the trademark laws of the United States, 15 U.S.C.S. §1125(a), and on 28 U.S.C. §2201, the Federal Declaratory Judgment Act.

ANSWER: Australian Gold admits the allegations contained in paragraph 4 of the Complaint.

5. Subject matter jurisdiction is further founded on 28 U.S.C. §1367(a) as a matter under the Court's supplemental jurisdiction over state law claims so related to the federal issues in the action that they form part of the same case or controversy.

ANSWER: Australian Gold admits the allegations contained in paragraph 5 of the Complaint.

6. Personal jurisdiction over defendant is vested in this Court because the claims alleged arise from acts and conduct defendant purposefully directed towards plaintiff, a New York resident.

ANSWER: Australian Gold admits that the Court has personal jurisdiction over it but denies the remaining allegations contained in paragraph 6 of the Complaint.

7. Venue is proper in the United States District Court for the Eastern District of New York pursuant to 28 U.S.C. §1121 (b) and (c), because a substantial portion of the harm sought to be avoided, and a substantial part of the events and omissions which give rise to the claims alleged herein are occurring in and about this District.

ANSWER: Australian Gold denies the allegations contained in paragraph 7 of the Complaint.

FACTS

8. Plaintiff operates an Internet website which provides consumers with the opportunity to purchase, at discount prices, various products including nutritional and performance-enhancing supplements, located at www.TheSuppleNet.com ("SuppleNet.com").

ANSWER: Australian Gold admits that Plaintiff operates the website, www.thesupplenet.com, but is without sufficient information or knowledge as to the remaining allegations contained in paragraph 8 of the Complaint and therefore denies the same.

9. Plaintiff's website operates on a technological and electronic commerce platform contracted from Yahoo! Small Business Merchant Solutions, a service of Yahoo!, Inc. ("Yahoo!").

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 9 of the Complaint and therefore denies the same.

10. Yahoo! is the No. 1 Internet brand globally and attracts the largest audience worldwide, over 237 million unique users per month. Yahoo! has become the Internet's leading global business services company, offering a comprehensive network of essential services for businesses of all sizes. Yahoo!'s corporate mission is to represent Internet best-practices and expertise.

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 10 of the Complaint and therefore denies the same

11. Plaintiff's website has earned the privilege of displaying the Yahoo! Top Service icon.

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 11 of the Complaint and therefore denies the same.

12. According to Yahoo!, "The five-star Top Service icon next to a store's name is a sign of superlative quality. It means that the store is participating in our Merchant Rating System, and customers who have ordered from that store have given it the highest ratings."

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 12 of the Complaint and therefore denies the same.

13. Indeed, the SuppleNet.com. website features an extensive sampling of appreciative testimonials from customers.

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 13 of the Complaint and therefore denies the same.

14. In addition to supplements, plaintiff's website also offers discount prices on a wide selection of premium tanning products (the "Tanning Products").

ANSWER: Australian Gold admits that Plaintiff sells its products on the Internet, but is without sufficient information or knowledge as to the remaining allegations contained in paragraph 14 of the Complaint and therefore denies the same.

15. All the Tanning Products sold by plaintiff at the SuppleNet.com website are purchased by the plaintiff at retail tanning salons.

ANSWER: Australian Gold denies that Plaintiff purchases its products from a retail tanning salon based upon Plaintiff's volume of business, but is without sufficient information or knowledge as to the remaining allegations contained in paragraph 15 of the Complaint and therefore denies the same.

16. To ensure control over their distribution network, many manufacturers of the Tanning Products enter into agreements with their wholesale distributors which forbid those distributors not to sell the Tanning Products to retailers other than tanning salons, such as retail and wholesale stores, pharmacies, beauty supply stores, flea markets and the Internet ("Exclusive Distribution Policies").

ANSWER: Australian Gold admits that it has Distributorship Agreements with its distributors governing the distribution of its products but is without sufficient information or knowledge as to the remaining allegations contained in paragraph 16 of the Complaint and therefore denies the same.

17. Certain manufacturers of the Tanning Products state publicly that their purpose in maintaining tight control over the channels of distribution is ensure proper consumer guidance from the highly qualified professionals employed at tanning salons.

ANSWER: Australian Gold is without sufficient information or knowledge as to the allegations contained in paragraph 17 of the Complaint and therefore denies the same.

18. In fact, the "training" required properly to apply and otherwise utilize the Tanning Products does not require particular expertise, and most regular users of these products are able to obtain the knowledge necessary to use them properly with a minimum of self-education.

ANSWER: Australian Gold denies the allegations contained in paragraph 18 of the Complaint.

19. The real reason for maintenance of an Exclusive Distribution Policy is not consumer protection, but commercial and business strategy.

ANSWER: Australian Gold denies the allegations contained in paragraph 19 of the Complaint to the extent that the allegations pertain to its business, but is without sufficient information or knowledge with respect to the tanning industry and therefore denies the remaining allegations contained in paragraph 19 of the Complaint.

20. Upon information and belief, defendant maintains an Exclusive Distribution Policy.

ANSWER: Australian Gold admits that it requires its distributors to sign Distributorship Agreements which set forth certain rights and obligations with respect to the sale and distribution of Australian Gold's products. Australian Gold denies all remaining allegations contained in paragraph 20 of the Complaint.

21. Among the Tanning Products sold by plaintiff on the SuppleNet.com website are Tanning Products manufactured by defendant (the "Australian Gold Products").

ANSWER: Australian Gold admits its products, including the Australian Gold®, Swedish Beauty® and Caribbean Gold® brands, are sold on www.thesupplenet.com.

22. All Australian Gold Products sold by plaintiff on the SuppleNet.com website are purchased by plaintiff from tanning salons, and not from wholesale distributors.

ANSWER: Australian Gold denies allegations contained in paragraph 22 of the Complaint.

23. On January 15, 2004, plaintiff's principals received a letter from counsel for ETS, Inc., which then owned Australian Gold, Inc., delivered via Certified Mail, at the location of an unrelated entity, a store called Body Source in Lindenhurst, New York (the "January 15, 2004 Letter").

ANSWER: Australian Gold denies that Body Source is "an unrelated entity" to the Plaintiff, as "Body Source" is used by Plaintiff on the www.thesupplenet.com website. Australian Gold admits that the January 15, 2004 letter to Body Source, attached to the Complaint as *Exhibit A*, is a true and correct copy of the letter sent by its attorneys on that date. Australian Gold denies that ETS, Inc. owned Australian Gold, Inc. At that time, ETS, Inc. was the authorized distributor of the Australian Gold, Caribbean Gold and Swedish Beauty tanning lotions. Australian Gold denies all remaining allegations contained in paragraph 23 of the Complaint.

24. The January 15, 2004 Letter accused plaintiff of trademark infringement and intentional interference with defendant's contracts with its distributors in connection with plaintiff's sale of the Australian Gold Products and making various demanding that plaintiff (a) remove all references to Australian Gold from its website, (b) cease and desist from selling Australian Gold Products, and provide extensive purchase, supply and pricing information to defendant under threat of litigation. A copy of the January 15, 2004 letter is attached hereto as *Exhibit A*.

ANSWER: The January 15, 2004 letter is a document that speaks for itself. Australian Gold denies any allegations contained in paragraph 24 of the Complaint contrary to what is stated in that document.

25. After a number of other exchanges, plaintiff responded substantively, through counsel, in a letter dated January 27, 2004, explaining that all plaintiff's purchases of Australian Gold Products were made from retailers, not distributors; requesting the legal authority on which defendant's claims of tortious interference were based; and rebutting the claim of trademark infringement. A copy of the January 27, 2004 letter is attached hereto as *Exhibit B*.

ANSWER: Australian Gold admits that the January 27, 2004 letter, attached to the Complaint as *Exhibit B*, is a true and correct copy of the letter received by Australian Gold's counsel. This letter is a document that speaks for itself and Australian Gold denies any allegations contained in paragraph 25 of the Complaint contrary to what is stated in that document.

26. Defendant responded through counsel by letter dated January 28, 2004, demanding that plaintiff prove that its source of Australian Gold Products was retailers by providing "the names of all retail locations from which such purchases have been made (the "January 28, 2004 letter"). A copy the January 28, 2004 letter is attached hereto as *Exhibit C*.

ANSWER: Australian Gold admits that the January 28, 2004 letter, attached to the Complaint as *Exhibit C*, is a true and correct partial copy of the letter that it sent to Plaintiff's counsel on or about January 28, 2004. This letter is a document that speaks for itself and Australian Gold denies any allegations contrary to what is stated in that document.

27. The January 28, 2004 letter also enclosed a copy of a multimillion-dollar judgment from a federal court in Oklahoma obtained by defendant against other persons on trademark grounds.

ANSWER: Australian Gold admits that it sent a copy of a $5.23 million judgment from the United States District Court in the Western District of Oklahoma to Plaintiff's counsel on or about January 28, 2004, but that a copy of this Judgment was not attached to *Exhibit C*, thus making it incomplete. Australian Gold admits that the $5.23 million judgment was based upon violations of the Lanham Act, including trademark infringement and false advertising and tortious interference with the Distributorship Agreements.

28. The next day, plaintiff's counsel replied by letter (the "January 29, 2004 letter"), noting that the supply information demanded by defendant was proprietary and confidential, and that defendant had neither a legal basis to demand the information nor a factual basis on which to claim plaintiff was lying. A copy of the January 29, 2004 letter is attached hereto as *Exhibit D*.

ANSWER: Australian Gold admits that the January 29, 2004 letter, attached to the Complaint as *Exhibit D*, is a true and correct copy of a letter it received from Plaintiff's counsel. Australian Gold denies all allegations contrary to what is stated in that document.

29. The January 29, 2004 letter also noted that the Oklahoma judgment involved purchases from a distributor, not retailers, and contained virtually no information that would permit plaintiff to evaluate the activities that gave rise to the liability imposed in that matter to compare them to its own.

ANSWER: The January 29, 2004 letter is a document that speaks for itself. Australian Gold denies all allegations contrary what is stated in the that document.

30. There was no further correspondence between the parties until February 22, 2005, when defendant — now under new ownership — sent a letter to plaintiff, over the signature of its chief executive officer, Leslie Hartlieb, reiterating the earlier charges and threatening litigation unless plaintiff complied with defendant's demands. A copy of the February 22, 2005 letter is attached hereto as *Exhibit E*.

ANSWER: Australian Gold admits that it sent a letter to the Plaintiff on or about February 22, 2005. The February 22, 2005 letter is a document that speaks for itself and Australian Gold denies all allegations contained in paragraph 30 of the Complaint contrary to what is stated in that document. Australian Gold also denies that it is "under new ownership" as ETS, Inc. and Australian Gold, at all relevant times, have been owned by the same shareholders.

31. Fearing that defendant would seek to cripple competition from plaintiff by tying it up in litigation or regularly threatening to do so, plaintiff brought this action on this date.

ANSWER: Australian Gold admits that Plaintiff filed a lawsuit against it. Australian Gold is without sufficient information or knowledge as to the remaining allegations contained in paragraph 31 of the Complaint and therefore denies the same.

FIRST CAUSE OF ACTION

32. Plaintiff incorporates by reference the allegations contained in the foregoing paragraphs.

ANSWER: Australian Gold incorporates by reference its answers to paragraphs 1-31 of the Complaint as if fully set forth herein.

33. Plaintiff's use of the various product names and the brand name of the Australian Gold Products is fair use and does not infringe any federal or state trademark.

ANSWER: Australian Gold denies the allegations contained in paragraph 33 of the Complaint.

34. By accusing plaintiff of federal and state trademark infringement, defendant has created a present and actual controversy between the parties.

ANSWER: Australian Gold denies the allegations contained in paragraph 34 of the Complaint.

35. Defendant's action have caused plaintiff to bring this action which is the only means for it to maintain its lawful sale of the Australian Gold Products.

ANSWER: Australian Gold denies the allegations contained in paragraph 35 of the Complaint.

36. Plaintiff's remedy at law, in the event defendant seeks or obtains a preliminary injunction, is not adequate to compensate it for the injuries threatened or inflicted by defendant.

ANSWER: Australian Gold denies the allegations contained in paragraph 36 of the Complaint.

37. Plaintiff requests that this Court declare and adjudicate the parties' respective rights and duties with respect to plaintiff's fair use of the trademarks owned, associated with or allegedly owned by defendant.

ANSWER: Australian Gold requests that the Court deny the relief sought in paragraph 37 of the Complaint.

SECOND CAUSE OF ACTION

38. Plaintiff incorporates by reference the allegations contained in the foregoing paragraphs.

ANSWER: Australian Gold incorporates by reference its answers to paragraphs 1-37 of the Complaint as if fully set forth herein.

39. Plaintiff purchases its whole stock of Australian Gold Products from retail tanning salons.

ANSWER: Australian Gold denies the allegations contained in paragraph 39 of the Complaint.

40. Upon information and belief, such tanning salons are authorized resellers of the Australian Gold Products pursuant to defendant's own Exclusive Distribution Policy. By accusing plaintiff of intentional interference with contract, defendant has created a present and actual controversy between the parties.

ANSWER: Australian Gold denies the allegations contained in paragraph 40 of the Complaint.

41. Defendant's action have caused plaintiff to bring this action which is the only means for it to maintain its lawful sale of the Australian Gold Products.

ANSWER: Australian Gold denies the allegations contained in paragraph 41 of the Complaint.

42. Plaintiff's remedy at law, in the event defendant seeks or obtains a preliminary injunction, is not adequate to compensate it for the injuries threatened or inflicted by defendant.

ANSWER: Australian Gold denies the allegations contained in paragraph 42 of the Complaint.

43. Plaintiff requests that this Court declare and adjudicate the parties' respective rights and duties with respect to plaintiff's source of Australian Gold Products.

ANSWER: Australian Gold requests that this Court deny Plaintiff the relief it seeks in paragraph 43 of the Complaint.

THIRD CAUSE OF ACTION

44. Plaintiff incorporates by reference the allegations contained in the foregoing paragraphs.

ANSWER: Australian Gold incorporates by reference its answers to paragraphs 1-43 of the Complaint as if fully set forth herein.

45. On information and belief, the purpose of defendant's cease and desist letters is to control its Exclusive Distribution Policy, and not to enforce its trademarks, prevent the purported interference with contract it alleged without any basis, or to enforce any of the other supposed rights set forth in the January 15, 2004 Letter.

ANSWER: Australian Gold denies the allegations contained in paragraph 45 of the Complaint.

Defendant knows or should know that its claims of trademark infringement are without merit.

46. Australian Gold denies the allegations contained in paragraph 46 of the Complaint.

ANSWER: Defendant's claims of trademark infringement are false, are known by defendant to be false, and was brought only to induce deprive plaintiff of the benefits of the fair use of the terms by which it sells consumers the Australian Gold Products over the Internet.

47. Australian Gold denies the allegations contained in paragraph 47 of the Complaint.

ANSWER: Defendant has invoked spurious claims under the Lanham Act, and other claims in an attempt to obtain a business advantage beyond the rights afforded defendant under such laws.

48. Australian Gold denies the allegations contained in paragraph 48 of the Complaint.

ANSWER: Defendant's actions constitute unfair business practices under applicable state and federal law.

49. Australian Gold denies the allegations contained in paragraph 49 of the Complaint.

50. Defendant's actions are unlawful, unfair, wrongful, malicious, and fraudulent, in that they constitute misuse of federal and state trademark law, the making of frivolous trademark infringement claims, tortious interference with prospective economic advantage, trademark misuse, malicious prosecution, misrepresentation, and other forms of unfair competition, all in order to secure a business asset belonging to plaintiff.

ANSWER: Australian Gold denies the allegations contained in paragraph 50 of the Complaint.

51. Plaintiff has suffered and will continue to suffer economic harm from defendant's actions.

ANSWER: Australian Gold denies the allegations contained in paragraph 51 of the Complaint.

WHEREFORE, Australian Gold, Inc., by counsel, respectfully requests that this Court enter judgment in its favor and against the Plaintiff on all three causes of actions, that Plaintiff take nothing by way of its complaint, that Australian Gold be awarded costs of this action and all other appropriate relief.

AFFIRMATIVE AND OTHER DEFENSES

1. Plaintiff has failed to state claims upon which relief may be granted.

2. Plaintiff has an adequate remedy at law and thus is not entitled to injunctive relief.

3. Plaintiff's conduct with respect to the use of Australian Gold's trademarks constitutes trademark infringement, trademark dilution and unfair competition under the Lanham Act, 15 U.S.C. §1114, §1125(a) and New York state law.

4. Plaintiff has intentionally interfered with Australian Gold's Distributorship Agreements by intentionally inducing distributors to sell Plaintiff tanning lotions for resale over the Internet, despite Plaintiff having knowledge that these contracts forbid the sale of Products to persons and entities other than tanning salons and having no justification or privilege for interfering with them.

5. Plaintiff's claims are barred by the equitable doctrines of unclean hands, waiver, estoppel and laches.

6. Plaintiff and currently unknown third parties have engaged in a conspiracy to interfere with Australian Gold's Distributorship Agreements so that Plaintiff can impermissibly and illegally obtain Australian Gold's tanning lotions to sell on the Internet.

7. Venue is improper in the United States District Court for the Eastern District of New York.

8. Plaintiff's claims are not ripe.

AMENDED COUNTERCLAIMS AND AMENDED THIRD PARTY COMPLAINT

Counterclaimant/Third Party Plaintiff, Australian Gold, Inc. ("Australian Gold"), for its Amended Counterclaims and Amended Third Party Complaint against S & L Vitamins, Inc., d/b/a Body Source and www.thesupplenet.com and Larry Sagarin ("Sagarin"), hereby states as follows:

THE PARTIES

1. Australian Gold is an Indiana corporation with its principal place of business located at 6270 Corporate Drive, Indianapolis, Indiana.

2. Australian Gold is the manufacturer and exclusive distributor of Australian Gold®, Caribbean Gold® and Swedish Beauty® tanning lotions and other tanning related products ("Products"). Australian Gold's Products are considered premium tanning lotions in the indoor tanning industry and are sold to the majority of the over 25,000 tanning salons throughout the United States.

3. Australian Gold owns or is the licensee of registered and common law trademarks for the Australian Gold®, Swedish Beauty® and Caribbean Gold® brand names and the tanning lotions sold under those brands ("Marks"). A list of the federal registrations and applications for the Marks impermissibly used by S&L Vitamins is attached hereto as *Exhibit A*.

4. Australian Gold maintains Internet websites at www.australiangold.com, www.swedishbeauty.com, and www.cgtan.com (collectively "Websites"). Australian Gold does not sell Products to the general public on the Websites. The Products are displayed on the Websites for informational purposes so that consumers interested may learn about the use and benefits of the Products. Consumers may then visit their local tanning salon where they will receive personal consultation and instruction and use on the appropriate Product for their skin type and tanning objectives.

5. Australian Gold owns the copyrights to all pictures, artwork and commentary of the Products displayed on the Websites.

6. Australian Gold has registered copyrights for the labels of the following products: Forever After, Cheeky Brown, Body Kisses, Bearly Legal, Unforgiven, Sun Dreams, Simply

Divine, Pink Diamond and Free Spirit. True and correct copies of the federal registrations from the United States Copyright office are attached as *Exhibit B*.

7. Upon information and belief, S & L Vitamins does business on the Internet at www.thesupplenet.com (and www.bodysourceonline.com, which merely redirects web browsers to www.thesupplenet.com) and at two (2) retail locations in and around Lindenhurst and Miller Place, New York under the name Body Source.

8. Among other things, S & L Vitamins sells Products on the Internet and/or at its retail outlets causing damage to Australian Gold's distribution system and the reputation and goodwill of the Products and the company.

9. Upon information and belief, Larry Sagarin is the owner of S&L Vitamins and has direct responsibility and oversight with respect to S&L Vitamins' purchase and sale of the Products on the Internet and at its retail stores.

10. Upon information and belief, S & L Vitamins and/or Sagarin do business under the name Source Pharmaceuticals.

11. Upon information and belief, S & L Vitamins, and/or its owners, own, operate, control, manage or represent at least one retail tanning salon. This tanning salon(s) is used as a vehicle in which to acquire Products and resell them over the Internet.

JURISDICTION AND VENUE

12. This action includes claims for trademark infringement and unfair competition under the Lanham Act, 15 U.S.C. §§1114, 1125(a), copyright infringement under 17 U.S.C. §101 *et seq.*, tortious interference with contract and prospective economic advantage, state law claims for trademark infringement, unfair and deceptive business practices and conspiracy. This Court has original jurisdiction based on federal question jurisdiction pursuant to 28 U.S.C. §1331, exclusive federal jurisdiction for trademark and copyright claims under 28 U.S.C. §1338, and

diversity of citizenship pursuant to 28 U.S.C. §1332(a). The Court has jurisdiction over the state law claims pursuant to 28 U.S.C. §1367.

13. Australian Gold is a citizen of the State of Indiana for purposes of diversity as it is incorporated in the State of Indiana and its principal place of business is in the State of Indiana. S & L Vitamins is a New York corporation with its principal place of business located in New York. Sagarin is a resident of the State of New York. Further, the amount in controversy, exclusive of interest and costs, exceeds $75,000.

AUSTRALIAN GOLD'S DISTRIBUTION SYSTEM

14. Australian Gold distributes the Products through independent distributors for resale to tanning salons and hair care salons that offer on-premises tanning and instruction on the use of the Products. For the reasons explained below, sales to beauty supply stores, flea markets, Internet sellers and other similar outlets are strictly prohibited. Distributors are prohibited from selling the Products to anyone outside of the distribution channel, including to those persons or entities that sell the Products on the Internet.

15. Australian Gold manufactures and sells approximately 80 different tanning lotions and products which vary in their use and purpose. Some products are not designed to be used on sensitive areas of the body such as the face; while other products are specifically designed to moisturize and protect the face. For example, Australian Gold manufactures and sells "tingle" products, tanning lotions that contains a skin irritant designed to increase blood flow and enhance the tanning process. This product is not intended for persons with fair skin. 'Bronzing" products are another type of product designed to provide a deeper tan. Proper instruction on the use of the Products is paramount to consumer safety and satisfaction. If a person with the wrong skin type or novice tanner uses the wrong Product (i.e. a tingle product) it could create an

adverse physical reaction affecting both the consumer and Australian Gold's reputation in the marketplace.

16. To ensure that its products are used properly and in a safe manner, Australian Gold places a significant emphasis on the training of its Products. In a typical year, Australian Gold trains over 30,000 employees, salon owners and managers in 600 presentations instructing them on the proper use of the products.

17. Australian Gold implemented its current distribution strategy to (1) ensure that the end users of the Products received proper instruction and training on the use of the Products; (2) ensure the end user received face-to-face consultation with a trained salesperson so that the consumer purchased the correct Product based upon that person's skin type and tanning objectives; (3) ensure that the Products purchased and used by the consumer are used in a safe and proper manner since the Products are designed to achieve different results and not all Products are suited for all consumers; (4) protect the reputation and perception of the Products as premium products available only in tanning salons; and (5) allow for the opportunity to cross-sell other Products to the consumers, among other things.

18. Australian Gold has expended a substantial amount of time and effort to train its distributors and the tanning salons across the country, instructing them on the benefits of the Products and their intended use.

19. Australian Gold's current distribution system has increased and enhanced Australian Gold's sales and reputation in the marketplace. Australian Gold's sales have steadily increased over the years as it has streamlined its distributors and enforced its distribution system limiting sales to tanning salons.

20. To ensure that its distribution system is properly maintained, Australian Gold requires all of its authorized distributors to enter into agreements that specifically define to whom the Products may be sold.

21. Prior to January 1, 2005, Australian Gold distributed the Products through ETS, Inc., a separate company with common ownership. ETS entered into distributorship agreements with all of its distributors (hereafter "Distributorship Agreements"). Australian Gold now contracts directly with its distributors. A true and correct copy of the standard Distributorship Agreement that all authorized distributors are required to sign is attached hereto as *Exhibit C.*

22. As of January 1, 2005, all rights and obligations in the Distributorship Agreements have been assigned by ETS to Australian Gold, who now acts as the manufacturer and distributor of the Products.

23. Specifically, the Distributorship Agreements provide that Distributors may market, distribute and sell Products only to legitimate tanning salons and hair care salons that offer indoor tanning as an on-premises service and instruction on the use of the Products. (Distributorship Agreement, Art. 1.1(D) and (E)). The Distributorship Agreements prohibit the sale of Products to a reseller, like the Defendant, who intends to re-sell the Products to the general public at large on the Internet. (Distributorship Agreement, Art. 1.1(D) and (E)).

24. The Distributorship Agreements restrict the sale of Products to within the United States. (Distributorship Agreements, Art. 1.1(c)). This restriction is necessary for at least two reasons. First, Australian Gold has exclusive distributorship agreements with third parties in foreign countries. Thus, the restriction ensures that U.S. distributors do not infringe on territories outside of the United States. Second, many countries have certain labeling requirements, which if not followed could subject Australian Gold to substantial liability. The U.S. Products,

therefore, are different from the products sold in foreign countries and sales of U.S. Products outside of the United States do not comport with Australian Gold's quality control standards or foreign laws.

25. The Distributorship Agreements require all Distributors to assist Australian Gold "in educating Distributor's sales staff and Customers with regard to the use and benefit of the Products." (Distributorship Agreement, Art. 1.6). Distributors must also make their sales force available to Australian Gold for training and must conduct at least two (2) training sessions per year on the use and benefits of the Products to its customers. (Distributorship Agreement, Art. 1.6).

26. Australian Gold has expended substantial time and effort to preserve and protect the integrity of the distribution channels. Among other things, Australian Gold has (1) offered extensive training and instruction to each of its distributors and subdistributors and tanning salons regarding the proper channel of distribution of the Products; (2) held group and individual meetings with distributors to discuss the Distributorship Agreements and the need to sell Products only within the authorized distribution channels; (3) communicated on a daily basis with its distributors to remind them of their obligations to sell the Products within the authorized distribution channel; and (4) pursued legal action against numerous individuals and entities to enforce the restrictions regarding the distribution of Products.

27. Among other things, Australian Gold has sent cease and desist letters to persons and entities selling the Products on the Internet, terminated distributors found to have sold to Internet businesses and filed lawsuits against Internet businesses that have interfered with its distribution system and Distributorship Agreements.

28. As a direct result of these actions, the perceived value of the Products has remained high and sales have continued to increase. The Products' reputation has been enhanced as Products that are only available to consumers in legitimate tanning salons and not in discount outlets such as flea markets, beauty stores and the Internet.

S & L VITAMINS' AND SAGARIN'S USE OF THE INTERNET TO ILLEGALLY SELL PRODUCTS

29. S & L Vitamins and Sagarin operate an Internet website, www.thesupplenet.com, which sells the Products. They also control and operate another domain name, www.bodysourceonline.com, which is identical in content to the www.thesupplenet.com website.

30. S & L Vitamins and Sagarin also have a "brick and mortar" business known as Body Source, advertising on its website two retail locations located at 308 E Montauk Highway, Lindenhurst, NY 11757 and 159-6 Route 25A, Miller Place, NY 11764. Ironically, in the Complaint, S & L Vitamins alleged that "Body Source" at 308 E. Montauk Highway was "an unrelated entity," but the website states that www.thesupplenet.com is "brought to you by: Body Source 308 E Montauk Hwy Lindenhurst, N.Y. 11757." (See excerpt of www.thesupplenet.com webpage, attached hereto as *Exhibit D*).

31. S & L Vitamin's website is hosted by Yahoo! Store, an Internet service operated by the Internet company Yahoo!, that provides Internet based businesses with services such as webpage hosting and sales orders processing.

32. As a result of its association with Yahoo! Store, S & L Vitamins has linked its Internet business to Yahoo! and its search engine capabilities. Yahoo! allows businesses to "Sponsor" certain search terms on its search engine so that a business' website will be identified at or near the top of the search result. For example, a business may "pay for placement" with

respect to the search term "digital cameras." Yahoo! lists "Sponsor Results" containing websites presumably related to "digital cameras." These websites pay to be a "sponsor" and to have their business identified at the top of the search result.

33. Yahoo! boasts that websites that "pay for placement" can reach 80% of Internet users with search results listed on 8 of the top U.S. search engines, including Yahoo!, MSN, AltaVista, InfoSpace, AlltheWeb and NetZero.

34. Upon information and belief, S & L Vitamins and Sagarin have paid to use Australian Gold's intellectual property, including its Marks, on Yahoo! for the express purpose of directing Internet traffic to www.thesupplenet.com.

35. S & L Vitamins' website is identified in the "Sponsor Results" on Yahoo! for the search term "Australian Gold." Its website is listed near the top of the webpage under "Sponsor Results." (See webpage from Yahoo! Shopping searching for "Australian Gold," attached hereto as *Exhibit E*).

36. S & L Vitamins' website also is identified in the "Sponsor Results" on Yahoo! for the search term "Swedish Beauty." Its website is again listed near the top of the webpage under "Sponsor Results." (See webpage from Yahoo! Shopping searching for "Swedish Beauty," attached hereto as *Exhibit F*).

37. S & L Vitamins and Sagarin are using Australian Gold's intellectual property on the www.thesupplenet.com and through Yahoo! to sell tanning lotions that directly compete with Australian Gold's Products.

38. At relevant times to this lawsuit, S & L Vitamins and Sagarin used Australian Gold's intellectual property, including its Marks, in the HTML source code and metatags (the

software which web browsers and Internet search engines such as Google read and interpret) on the www.thesupplenet.com website.

39. The use of Australian Gold's Marks was to benefit and profit from the goodwill associated with Australian Gold's business and its brand names.

40. At relevant times to this lawsuit, S & L Vitamins and Sagarin advertised and displayed the Products for sale on its website using Australian Gold's artwork and Product description. Each Product was sold on the website by displaying a photograph and a description of the Product.

41. At certain times relevant to this lawsuit, upon information and belief, the photographs of the Products and the descriptions were "cut and pasted" from Australian Gold's websites without permission from Australian Gold by S&L Vitamins, Sagarin, and/or one of their employees or agents. A true and correct sample of some of the photographs and descriptions misappropriated from Australian Gold's websites is attached hereto as *Exhibit G.*

42. To confuse and mislead others even further, S & L Vitamins and Sagarin changed how the website displayed the Products. S & L Vitamins currently displays their own photographs of the Products and falsely draws an association and affiliation between the Products, Australian Gold and S & L Vitamins. Each photograph of the Product has the text "BodySourceOnLine.com" and the "Body Source" name and logo superimposed over the photographs, giving the false impression that S & L Vitamins is either an authorized reseller of the Products or that it is affiliated with, sponsored or endorsed by Australian Gold. True and correct copies of sample pages from the website and the artwork are attached hereto as *Exhibit H.*

S&L VITAMINS' AND SAGARIN'S INTERFERENCE WITH AUSTRALIAN GOLD'S DISTRIBUTION SYSTEM

43. S & L Vitamins and Sagarin have obtained the Products and have resold them on the Internet.

44. Upon information and belief, S & L Vitamins and Sagarin have obtained the Products, directly or indirectly, from one or more authorized distributors of the Products.

45. Upon information and belief, S & L Vitamins and Sagarin own, operate, control, represent or are affiliated with at least one currently unknown tanning salon to facilitate purchases of the Products from authorized distributors. The sole purpose of using a tanning salon as a pass through for these sales is to facilitate S & L Vitamins' and Sagarin's activities, avoid suspicion and to induce authorized distributors to sell Products to S&L Vitamins and Sagarin.

46. On or about January 15, 2004, Australian Gold (through its former distributor ETS) sent a cease and desist letter addressed to Body Source, which is one of the names under which S & L Vitamins does business, notifying it of its distribution system and the existence of the Distributorship Agreements. Australian Gold also provided S & L Vitamin's counsel with a copy of the Distributorship Agreement.

47. Despite having notice of the existence of the Distributorship Agreements and their prohibition on the sale of Products to non-tanning salons, S & L Vitamins and Sagarin have continued to purchase and sell the Products on the website and have refused to disclose their sources, including the name of the alleged tanning salon where they allegedly purchase the Products.

48. S & L Vitamins and Sagarin are selling Australian Gold's U.S. Products overseas in Europe, despite the U.S. Products not comporting with European laws concerning the labeling

of these products. Therefore, S & L Vitamins and Sagarin are not selling genuine Products to buyers in Europe and abroad.

49. All conditions precedent have occurred, been performed, were waived or excused.

COUNT I –COPYRIGHT INFRINGEMENT

50. Australian Gold incorporates by reference paragraphs one (1) through forty-nine (49) as if fully set forth herein.

51. Australian Gold is the exclusive owner of all of the copyrights for the labels of the Products, including the federally registered copyrights identified in Exhibit B. ("Copyrighted Works").

52. Upon information and belief, S & L Vitamins and Sagarin copied Australian Gold's Copyrighted Works and have publically distributed and disseminated infringing copies of the Copyrighted Works, including on the Internet.

53. Upon information and belief, S & L Vitamins and Sagarin knowingly and willfully created derivative works based upon Australian Gold's Copyrighted Works, and willfully publicly distributed the infringing derivative works.

54. Upon information and belief, to the extent that S & L Vitamins and Sagarin did not directly infringe Australian Gold's exclusive rights with respect to the Copyrighted Works, S&L Vitamins and Sagarin induced, caused and or materially contributed to the direct acts of infringement with knowledge of the infringing activity.

55. S & L Vitamins and Sagarin had a direct financial benefit and the infringing activities and had the right and ability to supervise those activities thus making them vicariously liable.

56. As a result of the conduct of S & L Vitamins and Sagarin, Australian Gold is entitled to actual and statutory damages, S & L Vitamins' and Sagarin's profits, and preliminary

and permanent injunctive relief against S & L Vitamins and Sagarin to enjoin and restrain infringement of Australian Gold's Copyrighted Works.

COUNT II – TRADEMARK INFRINGEMENT

57. Australian Gold incorporates by reference paragraphs one (1) through fifty-six (56) as if fully set forth herein.

58. Australian Gold is the owner and/or licensee of certain registered and common law trademarks ("Marks") identifying its brand names and the Products. The Marks are identified in *Exhibit A*.

59. At relevant times to this lawsuit, S & L Vitamins and Sagarin have used the Marks, without authorization or permission, on the website, www.thesupplenet.com, in the website's metatags, and on Yahoo's pay for placement service to divert customers to their website.

60. S & L Vitamins and Sagarin have also manipulated photographs displaying Products on the website by superimposing its name, Body Source, and its website address over photographs of the Products, thereby impermissibly suggesting a sponsorship, affiliation, endorsement or association between Australian Gold and S & L Vitamins.

61. Upon information and belief, S & L Vitamins and Sagarin have sold Products to consumers on the Internet without offering the proper instruction and use on the Products, thereby selling the Products outside of the quality control standards established by Australian Gold.

62. S & L Vitamins and Sagarin are selling U.S. Products outside of the United States. Australian Gold's U.S. Products are not suitable for sale outside the United States because, among other things, these products do not comply with foreign laws concerning the

labeling of the Products. Thus, the Products sold by S & L Vitamins and Sagarin outside of the United States are not distributed in accordance with Australian Gold's quality control guidelines.

63. The conduct of S & L Vitamins and Sagarin is likely to cause confusion or mistake or to deceive as to the affiliation, connection or association of Australian Gold and S & L Vitamins or as to the origin, sponsorship or approval of the Products.

64. The conduct of S & L Vitamins and Sagarin was willful and intentional.

65. The conduct of S & L Vitamins and Sagarin constitutes trademark infringement for which S & L Vitamins and Sagarin are liable to Australian Gold for actual damages, profits, statutory damages and attorney fees.

COUNT III - UNFAIR COMPETITION UNDER THE LANHAM ACT

66. Australian Gold incorporates by reference paragraphs one (1) through sixty-five (65) as if fully set forth herein.

67. Through manipulation of the photographs on its website, S & L Vitamins and Sagarin have violated Section 43(a) of the Lanham Act by impermissibly suggesting a sponsorship, affiliation, endorsement or association between Australian Gold and S & L Vitamins, or as to the origin, sponsorship, or approval of the Products.

68. The conduct of S & L Vitamins and Sagarin was willful and intentional.

69. The conduct of S & L Vitamins and Sagarin is likely to cause confusion or mistake or to deceive as to the affiliation, connection or association of Australian Gold and S & L Vitamins or as to the origin, sponsorship or approval of the Products and constitutes unfair competition under Section 43(a) of the Lanham Act, for which S & L Vitamins and Sagarin are liable to Australian Gold for actual damages, profits, statutory damages and attorney fees.

COUNT IV- TRADEMARK DILUTION

70. Australian Gold incorporates by reference paragraphs one (1) through sixty-nine (69) as if fully set forth herein.

71. Australian Gold's Marks are distinctive and famous.

72. S & L Vitamins and Sagarin began using the Marks after they became famous.

73. The conduct of S & L Vitamins and Sagarin, as set forth herein, has caused dilution of the distinctive quality of Australian Gold's Marks and have diluted the value of the Marks.

74. S & L Vitamins and Sagarin intended to trade on the goodwill and reputation of Australian Gold by using the Marks in this manner.

75. The conduct of S & L Vitamins and Sagarin, as set forth herein, was willful and intentional.

76. S & L Vitamins and Sagarin have been and will continue to be unjustly enriched by their unlawful conduct and Australian Gold has suffered damages to its goodwill and reputation.

77. Australian Gold is entitled to its actual damages and statutory damages for the conduct of S & L Vitamins and Sagarin.

COUNT V– TORTIOUS INTERFERENCE WITH CONTRACT

78. Australian Gold incorporates by reference paragraphs one (1) through seventy-seven (77) as if fully set forth herein.

79. At all relevant times to this lawsuit, Australian Gold has valid and enforceable Distributorship Agreements with its authorized distributors.

80. S & L Vitamins and Sagarin are aware of Australian Gold's Distributorship Agreements with its authorized distributors and the restrictions contained therein.

81. Upon information and belief, S & L Vitamins and Sagarin have intentionally induced unknown authorized distributors to breach the Distributorship Agreements with Australian Gold by ordering the Products from "John Doe" distributors and then selling the Products over the Internet to the general public.

82. Upon information and belief, S & L Vitamins and Sagarin are using false pretenses to induce authorized distributors to sell them Products.

83. S & L Vitamins and Sagarin are also interfering with Australian Gold's exclusive distributorship relationship with its European distributor by purchasing and selling U.S. Products in foreign markets, even though the U.S. Products do not conform to the laws of foreign jurisdictions.

84. The conduct of S & L Vitamins and Sagarin is willful, malicious and unjustified and such interference is neither privileged nor excusable.

85. Australian Gold has been damaged by the conduct of S & L Vitamins and Sagarin.

86. The conduct of S & L Vitamins and Sagarin constitutes tortious interference with the Distributorship Agreements for which S & L Vitamins and Sagarin, and any later identified person or entity who has acted in concert or participation with them, are liable to Australian Gold for actual and punitive damages in an amount to be proven at trial.

COUNT VI - TORTIOUS INTERFERENCE WITH PROSPECTIVE ECONOMIC ADVANTAGE

87. Australian Gold incorporates by reference paragraphs one (1) through eighty-six (86) as if fully set forth herein.

88. Australian Gold has enjoyed long and successful business relationships with its authorized distributors in the United States and abroad.

89. The conduct of S & L Vitamins and Sagarin has interfered with these relationships and constitutes tortious interference with Australian Gold's prospective business relationships with these distributors causing Australian Gold to suffer damages.

90. The conduct of S & L Vitamins and Sagarin was done by wrongful means and/or for the sole purpose of harming Australian Gold and its distribution system, for which S & L Vitamins and Sagarin, and any later identified person or entity who has acted in concert or participation with them, are liable to Australian Gold for actual and punitive damages in an amount to be proven at trial.

COUNT VII - UNFAIR COMPETITION AND DECEPTIVE BUSINESS PRACTICES

91. Australian Gold incorporates by reference paragraphs one (1) through ninety (90) as if fully set forth herein.

92. S & L Vitamins and Sagarin have engaged in a deceptive, consumer-oriented act and practice which is misleading in material respects and which has caused injury to Australian Gold and the general public.

93. Upon information and belief, S & L Vitamins and Sagarin have used Australian Gold's intellectual property, including its trademarks, on Yahoo! for the express purpose of diverting Internet traffic to www.thesupplenet.com. S & L Vitamins and Sagarin are using Australian Gold's trademarks on its website and through Yahoo! to sell tanning lotions that directly compete with the Products.

94. To confuse and mislead the public, S & L Vitamins and Sagarin currently display the Products with the text "BodySourceOnLine.com" and the "BodySource" name and logo superimposed over photographs of the Products, giving the false and misleading impression that S & L Vitamins is either an authorized seller of the Products or that it is affiliated with, sponsored or endorsed by Australian Gold.

95. Australian Gold has been injured as the result of S & L Vitamins' and Sagarin's deceptive acts.

96. The conduct of S & L Vitamins and Sagarin was willful and intentional.

97. The conduct of S & L Vitamins and Sagarin, as set forth above, constitutes violations of the New York Deceptive Trade Practices Act. N.Y. General Business Law § 349 (McKinney 2005).

98. The conduct of S & L Vitamins and Sagarin, as set forth above, violates N.Y. General Business Law § 133 (McKinney 2005) as they have intentionally used Australian Gold's names with the intent to deceive and mislead the public.

99. Australian Gold seeks its actual damages, treble damages and attorney fees.

COUNT VIII- STATE LAW TRADEMARK INFRINGEMENT

100. Australian Gold incorporates by reference paragraphs one (1) through ninety- nine (99) as if fully set forth herein.

101. The conduct of S & L Vitamins and Sagarin is likely to cause confusion or mistake or to deceive as to the affiliation, connection or association of Australian Gold and S & L Vitamins or as to the origin, sponsorship or approval of the Products.

102. The conduct of S & L Vitamins and Sagarin, as set forth above, constitutes trademark infringement under state law for which S & L Vitamins and Sagarin are liable to Australian Gold for its actual damages and injunctive relief.

COUNT IX - FALSE ADVERTISING

103. Plaintiffs incorporate by reference paragraphs one (1) through one hundred-two (102) as if fully set forth herein.

104. S&L Vitamins' and Sagarin's advertisement of the Products on the website is misleading in material respects and has caused injury to Australian Gold and the general public.

105. The conduct of S & L Vitamins and Sagarin, as set forth above, constitutes false advertising under the Lanham Act, 15 U.S.C. § 1125(a) and state law, N.Y. General Business Law, § 350 (McKinney 2005).

COUNT X - INJUNCTIVE RELIEF

106. Plaintiffs incorporate by reference paragraphs one (1) through one hundred-five (105) as if fully set forth herein.

107. S & L Vitamins' conduct has caused Australian Gold irreparable harm.

108. The Products are marketed as premium, exclusive products available only in tanning salons and hair care salons that offer on-premises tanning. S & L Vitamins and Sagarin have jeopardized and undermined Australian Gold' distribution system by selling these Products over the Internet and interfering with Australian Gold's distribution system. Monetary damages alone are insufficient to compensate Australian Gold. Injunctive relief is necessary to ensure that Australian Gold's distribution channels and its intellectual property are preserved.

109. Australian Gold requests that S & L Vitamins and Sagarin be enjoined from interfering with any Distributorship Agreement, including the purchase and sale of Products, and from otherwise interfering with Australian Gold's distribution channel and its contractual and business relationships.

110. Australian Gold requests that S & L Vitamins and Sagarin be enjoined from infringing on any of Australian Gold's Marks, including bidding on any Mark on any pay for placement service, using any Mark in the metatag or html source code, or using any Mark in any manner that is likely to cause confusion or mistake as to the affiliation, connection or association of Australian Gold and S & L Vitamins or as to the origin, sponsorship or approval of the Products. 15 U.S.C. §1116(a); N.Y. General Business Law §360-l (McKinney 2005).

111. Australian Gold requests that S & L Vitamins and Sagarin be enjoined from infringing, using, copying or otherwise exploiting Australian Gold's Copyrighted Works, including Australian Gold's federally registered copyrights for the labels for the following Products: Forever After, Cheeky Brown, Body Kisses, Bearly Legal, Unforgiven, Sun Dreams, Simply Divine, Pink Diamond, and Free Spirit, and any other Copyrighted Works.

COUNT XI - CONSPIRACY AND CONCERT OF ACTION

112. Australian Gold incorporates by reference paragraphs one (1) through one hundred-eleven (111) as if fully set forth herein.

113. Upon information and belief, S & L Vitamins and Sagarin have conspired with unknown distributors and other persons to illegally obtain the Products and sell them on the Internet.

114. The conduct of S & L Vitamins and Sagarin with unknown third parties constitutes conspiracy and concert of action to tortiously interfere with the Distributorship Agreements and Australian Gold's business relationships, for which each conspirator is liable to Australian Gold for damages.

WHEREFORE, Australian Gold, Inc., by counsel, respectfully requests the Court to:

A. Enter judgment in its favor and against S & L Vitamins and Sagarin on all claims and award Australian Gold actual damages in an amount to be proven at trial;

B. Award Australian Gold punitive damages for S & L Vitamins' and Sagarin's tortious interference with the Distributorship Agreements and prospective economic advantage;

C. Award Australian Gold profits and treble damages for S & L Vitamins' and Sagarin's infringement of the Marks pursuant to 15 U.S.C. §1117(a);

D. Award Australian Gold actual damages and profits, and statutory damages for S&L Vitamins' and Sagarin's copyright infringement pursuant to 17 U.S.C. §504;

E. Award Australian Gold actual and treble damages on its claim for unfair competition and deceptive business practices under state law; against S & L Vitamins and Sagarin;

F. Permanently enjoin S & L Vitamins and Sagarin, and any other person or entity acting in concert or participation with any of them, from interfering with any Distributorship Agreement, including the purchase and sale of Products, and from otherwise interfering with Australian Gold's distribution channel and its contractual and business relationships;

G. Permanently enjoin S & L Vitamins and Sagarin, and any other person or entity acting in concert or participation with any of them, from infringing on any of Australian Gold's Marks, including bidding on any Mark on any pay for placement service, using any Mark in the metatag or html source code, or using any Mark in any manner that is likely to cause confusion or mistake as to the affiliation, connection or association of Australian Gold and S & L Vitamins or as to the origin, sponsorship or approval of the Products;

H. Permanently enjoin S & L Vitamins and Sagarin, and any other person or entity acting in concert or participation with any of them, from infringing, using, copying or otherwise exploiting Australian Gold's Copyrighted Works, including Australian Gold's federally registered copyrights for the labels for the following Products: Forever After, Cheeky Brown, Body Kisses, Bearly Legal, Unforgiven, Sun Dreams, Simply Divine, Pink Diamond and Free Spirit, and any other Copyrighted Works;

I. Award Australian Gold pre-judgment interest, costs, attorney fees; and

J. Award Australian Gold all other appropriate relief.

Dated: New York, New York
August 23, 2005

Respectfully submitted,

MINTZ LEVIN COHEN FERRIS GLOVSKY
AND POPEO, P.C.

Francis Earley

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